

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF THE WOOD CREEK)
WATER DISTRICT, OF LAUREL COUNTY,)
KENTUCKY FOR (1) A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER)
DISTRICT TO CONSTRUCT A WATERWORKS)
CONSTRUCTION PROJECT, CONSISTING OF) CASE NO. 8643
IMPROVEMENTS TO THE EXISTING WATER-)
WORKS SYSTEM OF THE DISTRICT; (2))
APPROVAL OF THE PROPOSED PLAN OF FI-)
NANCING OF SAID PROJECT; AND (3) AP-)
PROVAL OF THE INCREASED WATER RATES)
PROPOSED TO BE CHARGED BY THE DISTRICT)
TO CUSTOMERS OF THE DISTRICT)

O R D E R

On September 8, 1982, the Wood Creek Water District ("Wood Creek") filed an application for approval of the financing and certification of the construction of a \$760,000 waterworks project for improvements to the existing waterworks system. This waterworks project will provide a 1000 gallon per minute ("gpm") expansion to the existing plant. Wood Creek also requested approval of increased rates for water service which would provide an increase in operating revenues of \$132,486. In this Order the Commission has allowed an increase in operating revenue of \$95,175.

This project will be financed through a \$760,000 loan from the Farmers Home Administration ("FmHA"). The loan repayment period is to be 40 years at an annual interest rate of 5 percent.

Wood Creek is now serving approximately 2,197 customers. The expansion of the waterworks plant will not immediately add any new customers to the Wood Creek Water District; however, it does allow for the growth in the number of customers when funds become available for line extensions.

The plans and specifications for the proposed construction, as prepared by Russell & Axon, Engineers-Planners-Architects, Inc., ("Engineer"), have been approved by the Natural Resources and Environmental Protection Cabinet.

A public hearing in this matter was held December 8, 1982. There were no intervenors and no protests were entered.

TEST PERIOD

Wood Creek proposed, and the Commission has accepted, the 12-month period ending June 30, 1982, as the test period in this matter.

REVENUES AND EXPENSES

Wood Creek incurred a loss for the test period of \$18,099. Wood Creek proposed adjustments to depreciation and interest expenses to reflect the increases in these accounts from the construction project, which increased its adjusted test period loss to \$71,299. The Commission has accepted Wood Creek's pro forma revenues and expenses with the following adjustments:

Water Sales

During the test period Wood Creek had water sales revenue of \$432,276, including \$36,990 from wholesale distribution to the East Laurel Water District ("East Laurel") for 10 months of the

test period beginning in August 1981. To reflect a full year's annualized sales to East Laurel, water sales revenue has been increased by \$7,278, resulting in total water sales revenue of \$439,554.

Depreciation Expense

Wood Creek adjusted depreciation expense by \$15,200 to reflect additional depreciation from the construction project. The Commission has further adjusted depreciation expense in accordance with its policy that depreciation should be computed on the basis of original cost of the plant in service less contributions in aid of construction, as the Commission is of the opinion that it is unfair to require ratepayers to provide recovery on that portion of plant which has been provided free of cost. Therefore, the Commission finds that reasonable depreciation expense for rate-making purposes is \$71,656,⁽¹⁾ a reduction in Wood Creek's adjusted depreciation expense of \$37,558.

(1) Calculation:

Utility Plant in Service	\$ 3,600,512
Less:	
Net Contributions in Aid of Construction	<u>1,438,364</u>
Net Utility Plant in Service	\$ 2,162,148
Composite Depreciation Rate	<u>X 2.6111%</u>
Depreciation Plant in Service	<u>\$ 56,456</u>
Depreciation on Proposed Construction	\$ 15,200
+ Depreciation on Plant in Service	<u>56,456</u>
Adjusted Depreciation Expense	<u><u>\$ 71,656</u></u>

Telephone Expenses

During the test period, Wood Creek included the residential local telephone service bills of 3 employees in its office expenses. Wood Creek stated that this expense was for emergency night repair service. The Commission is of the opinion that the expense of only one night service phone is reasonable for rate-making purposes. Therefore, the Commission has disallowed two-thirds of the annualized residential telephone expense of \$932, a reduction in operating expenses of \$621.

Transmission Expenses

During the test period Wood Creek incurred an expense of \$3,568 to replace impellers in a pump. The Commission is of the opinion that this expenditure should have been capitalized to Account 325 of the Uniform System of Accounts for Class C Water Utilities. Accordingly, the Commission has depreciated this expense over 5 years, a reduction in operating expenses of \$2,854.

Therefore, the Commission finds that Wood Creek's adjusted test period operations are as follows:

	<u>Wood Creek Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 496,769	\$ 7,278	\$ 504,047
Operating Expenses	483,689	(41,033)	442,656
Net Operating Income	<u>\$ 13,080</u>	<u>\$ 48,311</u>	<u>\$ 61,391</u>
Interest Expense	\$ 132,019	\$ -0-	\$ 132,019
Other Income	<u>47,640</u>	<u>-0-</u>	<u>47,640</u>
Net Income	<u>\$ (71,299)</u>	<u>\$ 48,311</u>	<u>\$ (22,988)</u>

REVENUE REQUIREMENTS

The Commission has used the debt service coverage ("DSC") method to determine appropriate revenue requirements for Wood Creek. Wood Creek's pro forma average debt service for the next 5 years, including financing of the proposed construction project, is \$170,172. Wood Creek's DSC on adjusted net operating income of \$61,391 plus interest income and miscellaneous nonoperating income of \$47,640 is .64X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. Furthermore, the Commission is of the opinion that a DSC of 1.2X is the fair, just and reasonable coverage necessary for Wood Creek to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission has determined that additional revenue of \$95,175⁽²⁾ is necessary to provide the 1.2X DSC which will insure the future financial stability of Wood Creek.

SERVICES PROVIDED TO WEST LAUREL WATER DISTRICT

Wood Creek provides maintenance, construction, and office services to West Laurel Water District ("West Laurel") and is reimbursed for the expenses incurred in providing this service. Maintenance and construction services are reimbursed at the cost of materials and labor, while office services are reimbursed at a flat rate per customer. These reimbursements are acceptable for

(2) Adjusted Operating Expenses	\$442,656
1.2 X Debt Service (\$170,172)	204,206
Revenue Requirement	<u>\$646,862</u>
Less: Adjusted Operating Revenue	<u>551,687</u>
Increase Allowed	<u>\$ 95,175</u>

the test period. However, the Commission advises Wood Creek that in the future these reimbursements should include a return on any assets used to provide these services at a rate equal to Wood Creek's DSC, so that neither water district is subsidizing the other. The Commission further advises Wood Creek that its method of billing West Laurel for office services should include an annual reconciliation to insure that the full costs of providing these services are recovered.

RATE DESIGN

Wood Creek's present rate structure provides for a flat rate to be charged all wholesale customers except the City of London ("City"). The rate schedule for the City contains 2 rate blocks covering the first 700,000 gallons and all over 700,000 gallons. Wood Creek proposed to charge all wholesale customers a flat rate per 1,000 gallons of water used. The proposed change will have no significant revenue effect and the Commission is of the opinion that it will be of benefit to both the utility and its customers for all wholesale customers to be billed on a flat rate basis.

SUMMARY

The Commission, after consideration of the record and being advised, is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application and record be performed and a certificate of public convenience and necessity should be granted.

2. The proposed construction includes: a 2,000 gpm raw water pump; a flocculation basin with equipment; settling basin modifications involving the installation of settling tubes and a sludge removal system; high-rating the existing filters; additional clearwell capacity; and two 2,000 gpm high service pumps. The cost of this construction will be about \$760,000 and is within the scope of project financing that has been secured by Wood Creek.

3. Any deviations from the approved construction which could adversely affect the water treatment facilities should be subject to the prior approval of this Commission.

4. The proposed borrowing of \$760,000 is for lawful objects within the corporate purposes of Wood Creek, is necessary and appropriate for and consistent with the proper performance of services to the public by Wood Creek, should not impair its ability to perform these services and is reasonably necessary and appropriate for such purposes.

5. Wood Creek should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal and administrative, etc.) within 60 days of the date that construction is substantially completed.

6. Wood Creek's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration

in civil or mechanical engineering. This supervision and inspection should insure that the construction work is done in accordance with the contract plans and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Wood Creek should require the Engineer to furnish a copy of the record plans and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

8. Wood Creek should file with the Commission a copy of all contractual agreements for the provision of services or the purchase of services which are subject to the approval of this Commission.

9. The rates proposed by Wood Creek will produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

10. The proposed change in rate structure will be of benefit to Wood Creek and its customers and should be approved.

11. Wood Creek should capitalize the expenditure for pump impellers in Account 325 of the Uniform System of Accounts for Class C Water Utilities, and depreciate this expenditure over 5 years.

12. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by Wood Creek in that they should produce gross annual revenue of \$646,862.

IT IS THEREFORE ORDERED that Wood Creek be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the plans and specifications of record herein.

IT IS FURTHER ORDERED that any deviations from the approved construction which could adversely affect the water treatment facilities shall be subject to the prior approval of this Commission.

IT IS FURTHER ORDERED that Wood Creek be and it hereby is authorized to borrow \$760,000 at 5 percent interest from the FmHA over a 40-year period. Further the project funds shall be used only for the lawful objects of Wood Creek as set forth in the application.

IT IS FURTHER ORDERED that Wood Creek shall file with the Commission duly verified documentation which shows the total costs of construction herein certificated including all capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between Wood Creek and its Engineer shall require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering. This supervision and inspection shall insure that the construction work is done in accordance with the contract plans and specifications and conforms with the best practices of the construction trades involved in the project.

IT IS FURTHER ORDERED that Wood Creek shall require the Engineer to furnish the Commission with a copy of the record drawings and a signed statement that the construction has been satisfactorily completed and done in accordance with the contract plans and specifications within 60 days of the date of substantial completion of the proposed construction.

IT IS FURTHER ORDERED that Wood Creek shall file with the Commission a copy of all contractual agreements for the provision of services or for the purchase of services which are subject to the approval of this Commission.

IT IS FURTHER ORDERED that the rates proposed by Wood Creek be and they hereby are denied.

IT IS FURTHER ORDERED that the change in rate structure proposed by Wood Creek be and it hereby is approved effective for service rendered on and after the effective date of this Order.

IT IS FURTHER ORDERED that Wood Creek shall capitalize and depreciate the expenditure for pump impellers.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are approved as the fair, just and reasonable rates and charges to be charged by Wood Creek for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Wood Creek shall file its revised tariff sheets setting forth the rates approved herein and rules and regulations governing the provision of service.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 14th day of March, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8643 DATED March 14, 1983.

The following rates are prescribed for customers served by Wood Creek Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8-Inch X 3/4-Inch Meter

Gallonge Block

Rate

First 2,000 gallons	\$ 7.85 Minimum
Next 1,500 gallons	2.45 per 1,000 gallons
Next 1,500 gallons	1.85 per 1,000 gallons
Next 2,500 gallons	1.50 per 1,000 gallons
Over 7,500 gallons	1.20 per 1,000 gallons

3/4-Inch Meter

Gallonge Block

Rate

First 3,500 gallons	\$11.53 Minimum
Next 1,500 gallons	1.85 per 1,000 gallons
Next 2,500 gallons	1.50 per 1,000 gallons
Over 7,500 gallons	1.20 per 1,000 gallons

1-Inch Meter

Gallonge Block

Rate

First 5,000 gallons	\$14.30 Minimum
Next 2,500 gallons	1.50 per 1,000 gallons
Over 7,500 gallons	1.20 per 1,000 gallons

1½-Inch Meter

Gallonge Block

Rate

First 10,000
Over 10,000

\$21.05 Minimum
1.20 per 1,000 gallons

2-Inch Meter

Gallonge Block

Rate

First 20,000
Over 20,000

\$33.05 Minimum
1.20 per 1,000 gallons

Wholesale

All Usage

\$.80 per 1,000 gallons

**TO BE
CONTINUED**

**END
OF
ROLL**

START OF RETAKE

ROLL NO.: 7 008240 24.1

TITLE OF RECORD SERIES: Public Service Commission - Original Orders
Case # 257 12-20-82

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